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September 11, 2012

Mr. Simon Farbrother, City Manager  
City of Edmonton  
3<sup>rd</sup> Floor, City Hall  
1 Sir Winston Churchill Square  
Edmonton AB T5J 2R7

Dear Simon:

**Re: Edmonton Downtown Arena Project**

I am writing to thank you and Mayor Mandel for inviting the Katz Group to appear at an *in camera* meeting of City Council on September 12 to discuss the proposed downtown arena project. In extending the offer, Mayor Mandel was explicit (and we agree) that we should not appear if a number of substantive issues in our negotiations with you remain unresolved. Regrettably, as that is the case, we must respectfully decline the invitation.

I do hope, and I know Daryl shares this feeling, that a similar invitation will be extended when a comprehensive and mutually supported agreement can be put to City Council for its consideration and approval. In the meantime, I hope this letter will assist you, Mayor Mandel and City Council by providing our perspective on the current state of the project.

As you know, it has now been four and a half years since the Mayor's Leadership Committee recommended the City of Edmonton pursue the development of a new downtown arena district in partnership with the Edmonton Oilers. Since that time, the Katz Group has worked tirelessly to realize the vision set out in both the Committee's report and the City of Edmonton's Downtown Plan.

Moreover, we have worked with you and the City to secure our mutual and fundamental interest in ensuring the long-term sustainability of the Edmonton Oilers and the NHL in Edmonton. In the pursuit of these shared goals, the Katz Group has invested countless hours and millions of dollars towards the design and development of a new downtown arena, plus approximately \$70 million, including land acquisition costs, to advance the related private sector

development. This far exceeds City Council's requirement that the Katz Group invest \$30 million towards development of the arena district prior to the commencement of construction of the arena itself. We have made these investments of time and money in good faith and without regret.

However, and notwithstanding our collective efforts, we have been unable to come to terms based on the framework established at our meetings in New York in October 2011, let alone to convert that framework into definitive legal agreements. Among other things, as you know, the open items include:

1. Design, budgets and sharing of cost overruns on the arena and Wintergarden;
2. Offsets to or limits on arena capital maintenance and operating costs;
3. Commencement of a collaborative effort to secure an acceptable casino arrangement, which was a fundamental element of the New York framework;
4. Lease renewal rights;
5. Taxation of commercial activities within the arena;
6. Establishing the conditions to permit the private sector development to proceed, including "Block K" and the community rink on the east side of the arena, which are essential for an arena design that enhances the neighbourhood on all sides and without which the arena must be redesigned (as they are both functional and structural elements); and
7. Finalization of definitive agreements.

The fact is that a number of things have changed since we met in New York:

- Based on extensive design and value engineering work, we now know that the arena cannot be built for \$450 million without sacrificing the arena design, a design which squarely reflects the public's demand for an iconic arena that is well-integrated with surrounding streets and neighbourhoods.
- The same has proven true for the original estimated cost of \$50 million for the Wintergarden, which is an integral part not just of the arena's urban design, but of its physical structure. (As you know, we are prepared to pay for a fair portion of construction cost increases beyond anticipated levels for both the arena and Wintergarden, within the context of an overall deal that works for both parties.)
- It has also proved impossible to achieve these budget goals without violating a key condition of the New York framework, which is that the Katz Group's revenue streams from the arena will be sufficient to ensure the Oilers' long-term sustainability and provide a return on the hundreds of millions of dollars of capital we are putting at risk (including through a 35-year lease and location agreement).
- As we feared, these cost pressures have been exacerbated by the time it has taken since we met in New York to get to this point. You will recall that when we met last October the goal was to finalize a master agreement and all related agreements within a few months; it will soon be a year and we are still a long way from that goal.

- There has not been, as yet, a collaborative effort to secure an acceptable casino arrangement, as has been done in other small markets.
- We have made tremendous progress, together, on the arena design. In addition to earning strong public support, this work has enabled us to develop reliable models, based on the arena's actual design, of the arena's anticipated revenues and expenses. These estimates, plus the fact of a competitive facility (Rexall Place), have implications for the management of capital and operating expenses that must be given fresh consideration if we are to arrive at a deal that makes economic sense for the Katz Group and the City.
- On the other side of the ledger, we understand City Administration currently estimates revenues from the CRL may far exceed its previous and very conservative estimates of \$1.2 billion (or \$1.6 billion if the Katz Group's plans for private sector development are included). Even at this lower level, and especially at the much higher levels currently being forecast internally, we believe the City has significant capacity beyond its commitment of \$45 million to help fund the arena, which by all accounts is the catalyst for the CRL itself and which can help to fund so many other important projects to benefit downtown and the entire city.

The Katz Group has suggested a number of creative alternatives to address these items. We remain hopeful that we can break the current impasse and move the project forward as soon as possible, as a failure to do so will expose the project to additional design and construction costs that could make the arena prohibitively expensive. We say this based on the advice of the project's construction team and estimated construction cost inflation numbers from Alberta Infrastructure, which as you know is the same data source the City uses in its own projects. To be clear, we are advised that any interruption in the design process will result in an inability to complete construction on the arena by the Fall of 2015, as contemplated, with the attendant cost increases to follow.

These, plus the simple fact that Edmonton needs a new arena with or without the Katz Group's participation, are the realities we face. They present some significant challenges, but also point the way to creative solutions if we can work together to achieve them.

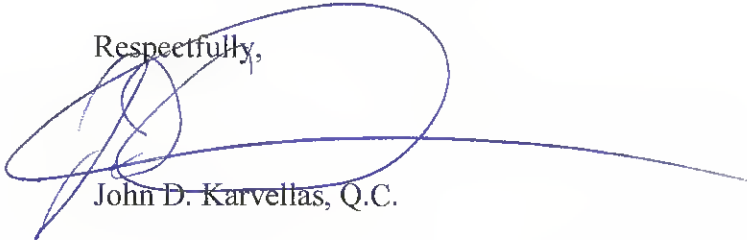
For the Katz Group, this process has always been a means to secure the Oilers' long-term sustainability in Edmonton and to help drive the revitalization of our city's downtown core. (In fact, as you will recall, it was these twin goals, more than anything, that motivated Daryl to acquire the Oilers when the EIG was starting to fracture.) In exchange, we are seeking a deal that reflects Edmonton's standing as the second smallest market in the NHL and that is commensurate with the public support given to NHL franchises in Winnipeg and Pittsburgh.

We are committed to continuing to work with you, your staff, Mayor Mandel and City Council to develop a timely and creative solution that enables the project to go forward in a way that makes sound economic sense for all concerned.

We are steadfast in the belief that the downtown arena district remains "Edmonton's Greatest Opportunity," to quote the Leadership Committee's report. We are confident it will spur an unprecedented level of investment and transformational development activity in the downtown core – much of which we are prepared to lead (as evidenced by the investments I referenced above) under the right circumstances. We have welcomed the recent vocal and unequivocal support for the project that has been expressed by the Chamber of Commerce, the Downtown Business Association and others. We share City Administration's belief that the CRL can be a very significant source of new municipal revenues -- both in short order and in the long term. And we can put no price on the value that the Edmonton Oilers, the development of a world-class arena, and the development of a world-class arena *district* will bring to our city's identity as well as to its social, cultural and economic fabric.

With the clock running on our lease at Rexall Place, with costs mounting on the design process for the new arena and related facilities, and with construction cost inflation a fact of life across Alberta, we hope you will receive a renewed mandate from City Council on September 12 to drive this process to a successful and timely close.

Respectfully,

A handwritten signature in blue ink, consisting of a large, stylized 'J' and 'K' followed by a long horizontal stroke.

John D. Karvellas, Q.C.

cc: Mayor Stephen Mandel  
Robert A. Seidel, Q.C., Davis LLP, Counsel to the City of Edmonton